



KARLA W. CORCORAN

INSPECTOR GENERAL

March 21, 2003

Ms. Christine C. Boesz
Inspector General
National Science Foundation
Office of Inspector General
4201 Wilson Boulevard
Suite 1135
Arlington, Virginia 22230-1859

SUBJECT: Transmittal of Final Report – Peer Review of the National Science Foundation Office of Inspector General
(Report Number: IG-PR-03-001)

We have reviewed the quality control system for the audit function of the National Science Foundation, Office of Inspector General (OIG) in effect for the year ending September 30, 2002. Our review was conducted according to standards and guidelines of the President's Council on Integrity and Efficiency. We tested compliance with the OIG's quality control system to the extent we considered appropriate. These tests included a review of audits.

In performing our review, we have considered the policy statement on quality control and external reviews, dated April 1997 (revised February 2002), issued by the President's Council on Integrity and Efficiency. That statement indicates that the OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent, and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of its work, and its organizational structure.

In our opinion, the quality control system for the audit function of the National Science Foundation OIG, in effect for the year ending September 30, 2002, has been designed according to the quality standards of the President's Council on Integrity and Efficiency and was being complied with for the year then ended to provide the OIG with reasonable assurance of conforming with professional standards in the conduct of its audits.

We noted the need to document oversight of public accounting firms that are under contract with the OIG and to conduct employee background checks for all

OIG employees. Management agreed and provided comments on the report.
Management's comments are included as an appendix to this report.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact John M. Seeba, Assistant Inspector General for Audit or me at (703) 248-2300.

Sincerely,

A handwritten signature in black ink, appearing to read "Karla W. Corcoran". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Karla W. Corcoran

Attachment

Report Addressed To:

**Christine C. Boesz
Inspector General, National Science Foundation
4201 Wilson Boulevard
Suite 1135
Arlington, Virginia 22230-1859**

This final report is privileged and confidential and prepared for the National Science Foundation Office of Inspector General in accordance with the standards and guidelines established by the President's Council on Integrity and Efficiency. Any other distribution of the final report will be made at the discretion of the National Science Foundation Office of Inspector General.

Final Report Issued By:

**UNITED STATES POSTAL SERVICE
OFFICE OF INSPECTOR GENERAL
1735 N. LYNN STREET
ARLINGTON, VIRGINIA 22209-2020**

**DATE OF FINAL REPORT: MARCH 21, 2003
REPORT IG-PR-03-001
PROJECT NUMBER 03WT001AO000**

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FINAL
PEER REVIEW REPORT
NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

CONFIDENTIAL

PEER REVIEW OF THE NATIONAL SCIENCE FOUNDATION OFFICE OF INSPECTOR GENERAL

Introduction

The United States Postal Service, Office of Inspector General (OIG) conducted an external quality review of the audit operations at the National Science Foundation OIG. The review was designed to assess the quality control system of the National Science Foundation OIG and determine its compliance with government auditing standards.

We determined that the National Science Foundation OIG's quality control system was adequate and operating effectively to provide reasonable assurance that applicable auditing standards are being followed.

Background

The National Science Foundation was established by the National Science Foundation Act of 1950 to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes. The President signed the Act into law on May 10, 1950.

On February 10, 1989, the National Science Board, in compliance with the Inspector General Act Amendments of 1988 (Public Law 100-504), established the National Science Foundation OIG. The OIG is headed by an Inspector General, who reports directly to the National Science Board and Congress. Under the law, the Inspector General has the authority and responsibility to conduct audits, inspections, and investigations involving any National Science Foundation proposal, award, program, function, system, or operation.

The National Science Foundation OIG's audit staff of 25 consists of the Inspector General, the General Counsel to the Inspector General, the Associate Inspector General for Audit, senior audit managers, audit managers, attorneys, program analysts, and audit staff. In addition, independent public accounting firms audit activities funded by the National Science Foundation.

Objective

The objective of the review was to determine whether the National Science Foundation OIG followed applicable government auditing standards in the conduct of its audit work. Specifically, our objective was to evaluate the quality control system to determine whether it was operating effectively to provide reasonable assurance that established policies, procedures, and applicable auditing standards were being followed.

Scope

The Postal Service OIG reviewed 12 audits (four audits performed by the audit organization and eight performed by independent public accounting firms) selected from 40 audits reported in the two semiannual reports to Congress covering the period October 1, 2001 through September 30, 2002. Only audit-related operations of the National Science Foundation OIG were included in this review. In addition, we reviewed the National Science Foundation OIG's internal quality control system. The review began in December 2002 and concluded in March 2003.

Methodology

The review was conducted in accordance with the President's Council on Integrity and Efficiency's *Guide for Conducting External Quality Control Reviews of the Audit Operations of Offices of Inspector General*, April 1997 (revised February 2002).

We used the following procedures to conduct the external quality review:

- Review of applicable government auditing standards;
- Evaluation and analysis of the National Science Foundation OIG's responses to questionnaires on quality control policies and procedures for auditing;
- Review of the National Science Foundation OIG's organization chart and staffing;
- Review of the National Science Foundation OIG's professional staff qualifications;
- Review of training records for the 2-year period ending September 30, 2002;
- Review of a judgmental sample of the final audit reports issued by the National Science Foundation OIG between October 1, 2001, and September 30, 2002, and associated working papers; and
- Discussions with the audit staff of the National Science Foundation OIG.

ASSESSMENTS AND COMMENTS BY RELEVANT AUDIT STANDARD GENERAL STANDARDS

Qualifications

Standard: The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

Assessment: Meets the standard.

Comments: Review of the National Science Foundation OIG's employee biographies and a sample of personnel and training records confirmed that the audit staff met the government auditing standards for professional proficiency, including continuing education and training. Our review of the personnel records for six new hires revealed that all but one had background checks documented in their personnel files. Although the one exception was not considered material to meeting the standard, we believe that employee background checks are an important part of a good internal control system. We discussed the issue with the Associate Inspector General for Audit and her executive assistant. They informed us that the human resources staff did not perform a background check because of confusion over whether the employee's existing security clearance was still valid or had expired. The OIG relies on the National Science Foundation's human resources staff for services, including background checks. The OIG is working with the human resources staff to ensure that this individual and all employees have the appropriate background checks and clearances.

Independence

Standard: In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

Assessment: Meets the standard.

Comments: Our review did not reveal any problems with the independence of the audit organization or its individual staff members. To ensure organizational independence, the National Science Foundation OIG reports directly to the National Science Board and Congress and receives its own budget. With regard to personal impairments, the audit organization relies on the individual staff members to report impairments, in which case the auditor is reassigned and a recusal notice is issued as appropriate. In addition, the audit organization requires annual conflict-of-interest training and uses the Annual Confidential Financial Disclosure Report to assist in identifying potential impairments.

Due Professional Care

Standard: Due professional care should be used in conducting the audit and in preparing related reports.

Assessment: Meets the standard.

Comments: The National Science Foundation OIG uses the government auditing standards as a basis for planning, conducting, and reporting its audit work. The audit organization also uses a financial and compliance audit guide, available to its audit staff and independent public accounting firms, which provides guidance on performing audits in accordance with applicable standards. This guide is currently being revised. The audit reports and working papers prepared by the audit staff and contractors were in compliance with government auditing standards.

Quality Control

Standard: Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

Assessment: Meets the standard.

Comments: The National Science Foundation OIG does not have an internal quality assurance program. As a result, the internal quality control system is dependent on individual staff members. The organization's audit process provides internal quality control over the audit work performed by the audit staff, as well as the work performed by independent public accounting firms. Review of the audit files confirmed that the OIG has a process for planning, preparation of working papers, supervision, and independent referencing that ensures compliance with applicable standards. Government auditing standards recognize that the nature, extent, and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of its work, and its organizational structure. In our review of the National Science Foundation OIG, we considered factors such as the size of the OIG and the nature of its work and determined that its quality control system was adequate to provide reasonable assurance that quality control objectives were met. The audit organization also met the standard for undergoing an external quality control review every 3 years, as the last peer review of the National Science Foundation OIG was conducted in December 1999.

FIELD WORK STANDARDS FOR FINANCIAL RELATED AND PERFORMANCE AUDITS

Planning

Standard: Work is to be adequately planned. The audit plan should define the audit's objectives and the scope and methodology used to achieve those objectives.

Assessment: Meets the standard.

Comments: Our assessment of the audit files and reports confirmed that audit work was adequately planned. The audit organization requires written audit programs on all audit engagements. Independent public accounting firms use a standard audit guide.

Supervision

Standard: Staff is to be properly supervised. Supervision includes directing the efforts of auditors, keeping informed of significant problems encountered, reviewing the work performed, and providing effective on-the-job training.

Assessment: Meets the standard.

Comments: Our review of the audit files confirmed that overall, the supervision of the audit work, including planning, preparation of working papers, and reporting, was adequate to ensure that the audit work was performed in accordance with government auditing standards. There was evidence of supervisory reviews by audit managers and senior audit managers in all of the National Science Foundation OIG audits we reviewed. We noted that the audit staff did not always document review of independent public accounting firm's working papers. These situations were isolated and were not material to meeting this standard.

Compliance with Laws and Regulations

Standard: When laws, regulations, and other compliance requirements are significant to audit objectives, auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.

Assessment: Meets the standard.

Comments: The audit plans we reviewed included steps to address compliance with applicable laws and regulations.

Management Controls

Standard: Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.

Assessment: Meets the standard.

Comments: The review of audits issued by the National Science Foundation OIG confirmed that a review of management controls was performed. The audit organization assessed management controls through observation; a review of policies, procedures and other documentation; and a review of compliance with laws and regulations.

Evidence

Standard: Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.

Assessment: Meets the standard.

Comments: Based upon our review of audit files, we determined that working papers were detailed, organized, and supported the conclusions made in the audit reports.

REPORTING STANDARDS FOR FINANCIAL RELATED AND PERFORMANCE AUDITS

Form

Standard: Auditors should prepare written audit reports communicating the results of each audit.

Assessment: Meets the standard.

Comments: The audit reports we reviewed provided a description of the background, objective, scope, methodology, findings, recommendations, and management responses.

Timeliness

Standard: Auditors should appropriately issue the reports to make the information available for timely use by management, legislative officials, and other interested parties.

Assessment: Meets the standard.

Comments: The audit reports we reviewed were issued in a timely manner. In cases when reports were delayed, the audit file was documented to demonstrate problems with the auditee.

Report Contents

Standard: Auditors should report the audit objectives and the audit scope and methodology.

Assessment: Meets the standard.

Comments: The audit reports we reviewed stated the audit objectives, scope, and methodology. In addition, the reports answered the audit objectives.

Report Presentation

Standard: The report should be complete, accurate, objective, convincing, and as clear and concise as the subject permits.

Assessment: Meets the standard.

Comments: The audit reports we reviewed met the standard for completeness, accuracy, and objectivity, and were convincing, clear, and concise. The reports were balanced, and support for findings was presented in an organized manner.

APPENDIX. MANAGEMENT'S COMMENTS

NATIONAL SCIENCE FOUNDATION
4201 WILSON BOULEVARD
ARLINGTON, VIRGINIA 22230

MAR 11 2003



OFFICE OF
INSPECTOR GENERAL

Mr. John Seeba
Assistant Inspector General for Audit
United States Postal Service
Office of Inspector General
1735 N Lynn Street
Arlington, VA 22209-2020

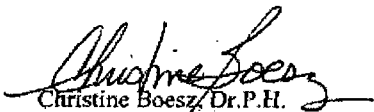
Dear Mr. Seeba:

Thank you for the opportunity to review and comment on your draft report on the Peer Review of the National Science Foundation Office of Inspector General (OIG). We are pleased you found that our audit organization complied with the quality standards and guidelines of the President's Council on Integrity and Efficiency.

Regarding your comments on our quality assurance program and documentation of our oversight of public accounting firms that are under contract with OIG, we plan to formalize these processes in the upcoming performance period. In addition, we agree with you that background checks are an important part of a good internal control system and are working with the NSF Division of Human Resource Management to ensure that background checks on new hires are processed in a timely manner.

We appreciate the efforts of your staff in conducting this review in a timely and professional manner. Their thoughtful and constructive comments will assist us in continuing to improve our audit operations at the National Science Foundation.

Sincerely,


Christine Boesz, Dr.P.H.
Inspector General